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Chinese Government Finances

A Study Made by a Committee of

The American Chamber of Commerce

P e k i n g



For Private Circulation

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A Study Made by a Committee of The American Chamber of Commerce

The disastrous condition in which the Government of China finds its finances has prompted the Government to appoint a Committee for the special purpose of studying its various financial problems. In addition to the work of this Committee a number of independent groups and individuals have attempted to work out schemes whereby the Chinese Government might solve its financial difficulties. The most important of the plans proposed so far is that of Mr. G. Padoux, Advisor to the Chinese Government, which was published in pamphlet form in January of this year, entitled "The Financial Reconstruction of China and the Consolidation of China's Present Indebtedness". Mr. Padoux seems to have based his calculations primarily on the figures and tables translated by Mr. Hollington K. Tong from Official Documents which were published in pamphlet form in December, 1922, under the title "China's Foreign and Domestic Debts" by the Peking & Tientsin Times.

The present study was undertaken by a Committee appointed by the American Chamber of Commerce in Peking and is based upon Mr. Hollington K. Tong's translations and the Memorandum published by Mr. Padoux. Mr. Padoux's estimate of Customs Receipts, present and prospective, is presumed to be correct.* All the amounts given in the following tables and explanations are in silver dollars unless otherwise stated.

Table A

This table shows the present charges on the Customs Revenues exclusive of the Consolidated Loan Service, conducted under the direction of Sir Francis Aglen. The Consolidated Loan Service covers six Domestic Loans issued from 1912-21. Their

* Note—See footnote Page 4.

lien on Customs Revenues has never been acknowledged by the Diplomatic Body. The recognized charges are given below together with the annual amounts required to take care of this service:

Years	Present Charges on Customs— Exclusive Consoli- dated Loans	Payments per annum	
	\$		\$
1923	69.994.700	Russo French Loan (Sino - Japanese War Indemnity)	{ 8.366.700 1923-1931
1924	68.123.700		
1925	64.911.700		
1926	61.780.700	Anglo German Loan 1896 (same pur- pose)	{ 9.521.000 to 1923-1932 9.440.000
1927	61.608.700		
1928	59.475.700		
1929	59.461.700	Anglo German Loan 1898 app. (same purpose)	{ 8.277.000 to 1923-1943 8.172.000
1930	59.446.700		
1931	59.432.700		
1932	59.281.000	Boxer Indemnities	{ 18.370.000 1923-1931 26.500.000 1932-1940 18.300.000 1941-1945
1933	49.736.000		
1934	49.731.000		
1935	49.725.000	Reorganization Loan	{ 13.500.000 1923 15.000.000 1924-1960
1936	49.720.000		
1937	49.714.000		
1938	49.708.000		
1939	49.701.000	DOMESTIC LOANS	
1940	49.694.000	Third Year Loan (1914)	{ 3.500.000 1923 6.000.000 1924 3.000.000 1925
1941	41.487.000		
1942	41.480.000		
1943	41.472.000	Fourth Year Loan (1915)	{ 5.700.000 1923
1944	33.300.000		
1945	33.300.000		
1946	15.000.000	Eleventh Year Loan (1922)	{ 2.760.000 1923 to to 2.120.000 1927

The Domestic Loans listed are cared for out of the German, Austrian and Russian Indemnity Funds.

The Boxer Indemnity charges are exclusive of German, Austrian and Russian Indemnities and presuppose that the deferred annuities of the five years 1917-1922 are to be postponed to 1941-1945.

Beginning with Table A, as above explained, the tables are treated in groups of from three to five, showing in each case, service of loan (or loans), funds available and surplus (or deficit).

First Group (Tables A. B. & C.)

Table B shows estimated net Customs revenue exclusive of the proposed 2½% increase and 5% luxury tax increase. The increase to effective 5% is treated as in full force from March, 1923.

Table C shows the estimated Surplus of Net Customs revenues (B) over presents recognized charges (A) and amounts to (1923) \$18 millions, increasing to \$41 millions in five years.

Group I

A

B*

C

Years	Present Charges on Customs—Exclusive Consolidated Loans	Net Customs Revenue Exclusive 2½% increase	Surplus Customs Revenue over present charges—Exclusive Consolidated Loans
	\$	\$	\$
1923	69.994.700	88.000.000	18.005.300
1924	68.123.700	93.000.000	24.876.300
1925	64.911.700	95.000.000	30.088.300
1926	61.780.700	97.000.000	35.219.300
1927	61.608.700	99.000.000	37.390.300
1928	59.475.700	101.000.000	41.524.300
1929	59.461.700	102.000.000	42.538.300
1930	59.446.700	104.000.000	44.553.300
1931	59.432.700	105.000.000	45.567.300
1932	59.281.000	107.000.000	47.719.000
1933	49.736.000	108.000.000	58.264.000
1934	49.731.000	110.000.000	60.269.000
1935	49.725.000	111.000.000	61.255.000
1936	49.720.000	113.000.000	63.280.000
1937	49.714.000	114.000.000	64.286.000
1938	49.708.000	116.000.000	66.292.000
1939	49.701.000	117.000.000	67.299.000
1940	49.694.000	119.000.000	69.306.000
1941	41.487.000	120.000.000	78.513.000
1942	41.480.000	122.000.000	80.520.000
1943	41.472.000	123.000.000	81.528.000
1944	33.300.000	125.000.000	91.700.000
1945	33.300.000	126.000.000	92.700.000
1946	15.000.000	128.000.000	113.000.000

* Note:—Mr. Padoux seems to have converted the Customs Revenues on the basis of Shanghai taels, whereas the Customs Receipts are in Haikwan taels. The figures showing Customs Revenues should therefore be increased by 11% with a consequent increase in the surplus.

Group 2 (Tables C. D. E.)

Table C now becomes available for further financing. The service of the loans included in the Consolidated Debt Service under the direction of Sir Francis Aglen is now examined, not because it is recognized that these loans have any lien prior to foreign claims or other domestic loans, but merely for purposes of comparison. The Diplomatic Corps has never formally recognized the Government's right to these surplus customs funds.

Table D shows the total annual amounts necessary for the service of these loans, taking them all at par, although the average market quotation for the past three years has been less than 50.

The following is a list of these loans showing the market quotation for May 9th, 1923. (Padoux's Politique de Peking, March, 1923):—

9th Year 6%	due 1926	\$40,000,000	quoted 64
Military Bonds (8%)	due 1924	\$ 1,771,150	not on market.
10th Year 6%	„ 1930	\$48,953,005	quoted 49
10th Year 7%	„ 1930	\$12,240,000	do. 51
5th Year 6%	„ 1929	\$18,757,590	do. 50
7th Year 6% (Long term)	1937	\$45,000,000	do. 43

The 10th Year 6% Loan represents the larger part of the old 1st Year Loan funded at 40. The 10th Year 7% represents the larger part of the old 8th Year Loan funded at 40. The 9th Year Loan was issued to retire the note issues of the Bank of China and Bank of Communications, Peking. The notes of these banks at that time (1920) were at 50% discount. They were redeemed with Ninth Year bonds at the rate of \$70 per notes of \$100. Mr. Padoux's Consolidation plan treats all these at par and assumes that they have a lien on Customs funds next to the Reorganization Loan. This in spite of the fact that the Presidential Mandate of March 3rd, 1921, entrusting the service of these loans to the Inspector General of Customs, directed that the Customs Surplus should be reserved for that service—the Government later interpreting the term Surplus to mean any Customs funds unexpended or unappropriated at the end of each year. In other words, in spite of the mandate covering this so-called Consolidated Debt Service, the Government assumed the right to pledge the Customs Revenue during any year, subject to existing liens. On the other hand, since 1912 the Diplomatic Body has maintained that without its consent, no Customs Revenues (other than to provide for the Boxer Indemnities, Pre-Boxer Loans and the Reorganization Loan) could be released to the Government, and at no time has this Control over the Customs funds been renounced.

The Service of these loans, however, is placed in this position in order to facilitate comparison with Mr. Padoux's tables.

\$15,000,000 in the fifth year.

Group II

Group II

C

D

E

Years	Surplus Customs Revenue over present Charges—Exclusive Consolidated Loans	Service of Consoli- dated Debt Service Loans	Surplus Customs Revenues after Provid- ing Service Consolidated Loans
	\$	\$	\$
1923	18,005,300	24,260,739	D 6,255,439
1924	24,876,300	23,453,112	S 1,423,188
1925	30,088,300	23,687,261	6,401,039
1926	35,219,300	28,595,971	6,623,329
1927	37,390,300	22,524,775	14,865,525
1928	41,524,300	25,848,793	15,675,507
1929	42,538,300	21,646,046	20,892,254
1930	44,553,300	17,423,664	27,129,636
1931	45,567,300	6,322,500	39,244,800
1932	47,719,000	6,052,500	40,666,500
1933	58,264,000	5,782,500	52,482,500
1934	60,269,000	5,512,500	54,756,500
1935	61,255,000	5,242,500	56,012,500
1936	63,280,000	4,972,500	58,307,500
1937	64,286,000	4,702,500	59,583,500
1938	66,292,000	nil	66,292,000
1939	67,299,000	.....	67,299,000
1940	69,306,000	.....	69,306,000
1941	78,513,000	.....	78,513,000
1942	80,520,000	.....	80,520,000
1943	81,528,000	.....	81,528,000
1944	91,700,000	.....	91,700,000
1945	92,700,000	.....	92,700,000
1946	113,000,000	.....	113,000,000

Group 3 (Tables E. F. G. H. & I.)

It is assumed that sometime this year (1923) the Powers will agree to an increase of China's import Customs duties by $2\frac{1}{2}\%$ and an increase in the import duties on certain luxuries by 5%; it is also assumed that the Conference (per Treaty of Washington) which is to decide on the increases will agree to allow these increased duties to be used as security for a refunding loan.

Table F shows the estimated increase in Customs revenue assuming that the increased duties come into force beginning 1924. To Table F add Table E, then Table G shows the total Customs revenues, including the $2\frac{1}{2}\%$ and 5% increases, available for a consolidation loan. There is still a deficit of \$6,255,000 for 1923. The refunding loan cannot begin therefore until 1924.

Table H shows the yearly Service of a 20 year Foreign Debt Consolidation Loan (1924-1943) for \$425,000,000, interest 8%, and amortization to begin 1932. This figure, \$425,000,000, is arrived at as follows:—

Mr. Padoux's estimate of unsecured foreign indebtedness, \$308 millions, including interest to June, 1923, is taken as a starting point. To this should be added \$45 millions (including interest) due to Foreign nationals by the Ministry of Communications. The Hukuang Railway Loan is only half secured; add £3,000,000 or say \$30 millions making a total of \$383 millions. To this must be added a further amount to cover various items, such as German Issue Bonds now overdue and in default as to coupon and principal. These additions will bring the total to about \$400 millions. However, as it is assumed that any proposed loan will not begin to operate before January, 1924, a half year's interest must be added, say \$16 millions. In addition to this, there are at the various Legations many claims against the Government, both personal and mercantile, so to round off the figure conservatively it is estimated that a loan of \$425 millions, drawing interest from January, 1924, would be required to care for all foreign unsecured or inadequately secured debts, including those of the Ministry of Communications.

Table I shows the estimated balance in hand from Customs Revenues after providing for the service of a loan of \$425 millions at 8% for 20 years, amortization from 1932 to 1943. This balance would be available for Consolidating Domestic Debts. The years 1923 and 1924 show small debit balances, but from 1925 on there is an increasing yearly surplus reaching the amount of \$11,800,000 in 1927.

The problem of Consolidating domestic debts is much more difficult than that of the foreign debts. The problem is confused by various elements, chief among which are the large number of debts contracted at various times and on various terms (often extremely usurious), the purposes of many of which were political and

even corrupt, and the huge discounts at which they were issued. In some of these cases it is difficult to believe that China received any quid pro quo whatever. The Treasury Note issue is especially subject to such criticisms.

Group III

E

F*

G

H

I

Foreign

Years	Surplus Customs Revenues after Providing Service Consolidated Loans	Estimated 2½% increase	Total Customs Revenue available for Funding Loans	Service of 20 yr. 8% par Domestic Debts Funding Loan 1924-43 Amortization beginning 1932,— \$425,000,000	Surplus for Funding Domestic Debts
	\$	\$	\$	\$	\$
1923	D 6.255.439	nil	D 6.255.439		D 6.255.439
1924	S 1.423.188	28.000.000	S 29.423.188	34.000.000	D 4.576.812
1925	6.401.039	29.000.000	35.401.039	34.000.000	S 1.401.039
1926	6.623.329	30.000.000	36.623.329	34.000.000	2.623.329
1927	14.865.525	31.000.000	45.865.525	34.000.000	11.865.525
1928	15.675.507	31.000.000	46.675.507	34.000.000	12.675.507
1929	20.892.254	32.000.000	52.892.254	34.000.000	18.892.254
1930	27.129.636	32.000.000	59.129.636	34.000.000	25.129.636
1931	39.244.800	33.000.000	72.244.800	34.000.000	38.244.800
1932	40.666.500	33.000.000	73.666.500	56.395.000	17.271.500
1933	52.482.500	34.000.000	86.482.500	56.395.000	30.087.500
1934	54.756.500	34.000.000	88.756.500	56.395.000	32.361.500
1935	56.012.500	35.000.000	91.012.500	56.395.000	34.617.500
1936	58.307.500	35.000.000	93.307.500	56.395.000	36.912.500
1937	59.583.500	36.000.000	95.583.500	56.395.000	39.188.500
1938	66.292.000	36.000.000	102.292.000	56.395.000	45.897.000
1939	67.299.000	37.000.000	104.299.000	56.395.000	47.904.000
1940	69.306.000	37.000.000	106.306.000	56.395.000	49.911.000
1941	78.513.000	38.000.000	116.513.000	56.395.000	60.118.000
1942	80.520.000	38.000.000	118.520.000	56.395.000	62.125.000
1943	81.528.000	39.000.000	120.528.000	56.395.000	64.133.000
1944	91.700.000	39.000.000	130.700.000	nil	130.700.000
1945	92.700.000	40.000.000	132.700.000	.....	132.700.000
1946	113.000.000	40.000.000	153.000.000	.....	153.000.000

* Note---See footnote Page 4.

Group 4 (Tables I. J. K. L. & M.)

Table I shows the estimated Customs funds available for a Consolidation of Domestic Debts. In order to maintain the comparison with Mr. Padoux's outline, his figures for domestic liabilities are, for the moment, taken at par, with \$70 millions added to cover Ministry of Communications domestic obligations.

Table J shows the service of an estimated loan of \$330 millions (8%, 20-year, amortization 1932-1943) to consolidate the domestic debts including those of the Ministry of Communications.

With Table K showing the result of Table J, the inadequacy of the Customs first appears concretely. The deficit is \$30 millions in 1924 and averages \$21 millions yearly in the years 1924-28. The Salt can not meet such a deficit and also provide for the administrative expenses of the Government unless the provinces remit that portion of the Salt Revenues which they now retain (amounting in 1922 to over \$40 millions). It is unlikely that the provinces will increase their remittances, therefore it is necessary to consider the possibilities of scaling down or deferring certain debts. Two tables are given: one on the basis of a scaling down of certain domestic debts but leaving the Consolidated Debt Service Loans (Table D) unaffected, the other assumes the Table D loans removed from their preferential position and treated on a par with the other domestic debts.

In Table L the service of a loan of \$240 millions is given as an alternative to Table J, \$330 millions. The figure \$240 millions is arrived at as follows:—

In the Padoux figures there appear some \$52 millions of Treasury notes. These cover such diverse items as \$5,000,000 due the Manchu Imperial Household, \$23,000,000 given at sundry times to sundry military chiefs, \$2,500,000 part cost of the unfinished Shanghai Mint. The purposes of other millions is not traceable. It seems necessary and wise that the Government treat with the holders of these notes separately. Of the so-called 8%, \$96 millions loan, \$42,000,000 were given to native bankers to cover \$35 millions of debts due by the government. In a sound funding loan this \$42 millions should be reduced to the original figure of \$35 millions, thus saving \$7,000,000. In Padoux's figures (Statement C, China Year Book 1923,—H. K. Tong's article) appear \$36,000,000 (including interest) of old First and Eighth Year Bonds which were not converted at 40 when those bonds were changed to 10th Year 6% and 7% Consolidated Loans. There appears no reason for this preferential treatment. Writing these to 40 saves \$22 millions.

Padoux includes about \$20,000,000 overdue interest on Chinese Banks short term debts (Statement H. China Year Book 1923,—H. K. Tong's article). A glance through Statement G of the China Year Book Compilation gives a most illuminating idea of the rates of interest charged by the native banks, in some

instances 2% per month, 1.8% per month being a favorite. Further, neither Statement F nor G of the China Year Book indicate the discounts at which these Treasury notes and loans were placed. It seems not unfair therefore to cut this interest charge 50% or by \$10,000,000. These deductions amount to \$91,000,000, call it a round \$90,000,000.

Table M shows the deficit resulting by Substituting Table L for Table J; that is, a loan of \$240 millions instead of \$330 millions. Heavy deficits appear for three years, though they are very considerably less than in Table K.

Group IV

	I	J	K	L	M
Years	Surplus for Funding Domestic Debts	Domestic Debt Con- solidation Loan \$330,000. 000 Same terms as "H"	Deficit (D) or Surplus (S) after Funding Domestic Debt	Alternative Domestic Debt Funding Loan 20 yr. 8% par 1924-43 Amorti- zation begin- ning 1932,— \$240,000,000	Deficit (D) or Surplus (S) under Scheme L.
	\$	\$	\$	\$	\$
1923	D 6.255.439		D 6.255.439		D 6.255.439
1924	D 4.576.812	26.400.000	D 30.976.812	19.200.000	D 23.776.812
1925	S 1.401.039	26.400.000	D 24.998.961	19.200.000	D 17.798.961
1926	2.623.329	26.400.000	D 23.776.671	19.200.000	D 16.576.671
1927	11.865.525	26.400.000	D 14.534.475	19.200.000	D 7.334.475
1928	12.675.507	26.400.000	D 13.724.493	19.200.000	D 6.524.493
1929	18.892.254	26.400.000	D 7.507.746	19.200.000	D 307.746
1930	25.129.636	26.400.000	D 1.270.364	19.200.000	S 5.929.626
1931	38.244.800	26.400.000	S 11.844.800	19.200.000	S 19.044.800
1932	17.271.500	43.789.000	D 26.517.500	31.856.000	D 14.584.500
1933	30.087.500	43.789.000	D 13.701.500	31.856.000	D 1.768.500
1934	32.361.500	43.789.000	D 11.427.500	31.856.000	S 505.500
1935	34.617.500	43.789.000	D 9 171.500	31.856.000	S 2.761.500
1936	36.912.500	43.789.000	D 6.876.500	31.856.000	S 5.056.500
1937	39.188.500	43.789.000	D 4.600.500	31.856.000	S 7.332.500
1938	45.897.000	43.789.000	S 2.108.000	31.856.000	S 14.041.000
1939	47.904.000	43.789.000	S 4.115.000	31.856.000	S 16.048.000
1940	49.911.000	43.789.000	S 6.122.000	31.856.000	S 18.055.000
1941	60.118.000	43.789.000	S 16.329.000	31.856.000	S 28.262.000
1942	62.125.000	43.789.000	S 18.336.000	31.856.000	S 30.269.000
1943	64.133.000	43.789.000	S 20.344.000	31.856.000	S 32.277.000
1944	130.700.000	nil	S 130.700.000	nil	S 130.700.000
1945	132.700.000	.....	S 132.700.000	.....	S 132.700.000
1946	153.000.000	.....	S 153.000.000	.....	S 153.000.000

Group 5 (Tables N. O. P.)

This Group assumes the complete Subordination of Domestic Debts to those owing to foreigners with the exception of the 3rd Year, 4th Year, and 11th Year Domestic loans, which are secured, as stated above, on the German, Austrian and Russian Boxer Indemnity Funds. Heavy reductions are also estimated, as shown below. Table D is eliminated and Table G is increased by the amounts in Table D. Table N represents the adjusted Table I. Table O shows the service on a 20-year, 8% loan (amortization 1932-43) of \$375,000,000 which loan would include all Domestic unsecured loans and debts except the 3rd, 4th and 11th year loans which, as explained, are secured on the existing Customs revenues.

The amount of this proposed loan is arrived at by taking the figure explained under Table J, \$330,000,000, and adding to it the Consolidated Debt Service loans, \$166,721,745, making a sub-total of \$496,721,745. From this deduct \$136,512,000, representing deductions from various par values as per list below:

<u>\$96,000,000 Loan</u>	<u>Reductions</u>
8% (\$40 millions given Japanese for overdue interest)	
Chinese Bankers received (face value) \$ 41,800,000	
to cover 35,103,000	\$ 6,697,000
Balance of \$14,200,000 take at 50 (quotation May 9th, 27)	7,100,000
<u>Consolidated Loan Service</u>	
8% Military \$1,771,150, being small, leave at par	
10th Year 6% (Old 1st) \$48,953,005	
(average quot. 1920-2, 43; quoted May 9th, 49) take	
at 75.....	12,238,000
10th Year 7%, (Old 8th) \$12,240,000 (average quot.	
1920-2, 47; quoted May 9th, 51) take at 75.....	3,060,000
Fifth Year 6% \$18,757,590 (average quot. 1920-2, 43, quoted	
May 9th, 50) take at 75.....	4,689,000
Seventh Year Long 6%, \$45,000,000 (average quot. 1920-2,	
quoted May 9th, 43) take at 70.....	13,500,000
Ninth Year 6%, \$40,000,000 (average quot.....1920-2, 60;	
quoted May 9th, 64) take at 85	6,000,000

Statement C* (Hollington K. Tong pamphlet)

1st and 8th Years, \$34,400,000, write down to 40 as were
the other old 1st and 8th Year Bonds 20,640,000

Statement F (Hollington K. Tong pamphlet)

Treasury Bills, \$ 33,767,000
\$ 23,000,000 of this was for Military expenses and
\$ 5,400,000 for Manchu Imperial family. Better leave out
altogether for the Government to finance separately as it
may see fit 33,767,000

Statement G (Hollington K. Tong pamphlet)

\$40,890,185. of this \$18,821,000 are special treasury bills,
including the "Fourteen millions" (quoted May 9th at 36) and
the Shanghai Mint treasury bills. Better leave this also for
special government attention later..... 18,821,000

Statement H (Hollington K. Tong pamphlet)

Interest to June 30, \$39,520,000. Write off \$10,000,000.
Many of these items have been paying interest at exorbitant
rates on face values 10,000,000
Total reduction..... \$ 136,512,000

* Note: It now appears that the \$34,400,000 represents \$86,000,000 of old 1st and 8th Year Bonds written down to 40 and given to certain Chinese banks etc. as security for certain loans and advances amounting to \$16,000,000 which amount is itself included in the list of short term loans and advances of the Ministry of Finance. The \$34,400,000 is therefore a duplication and should not appear at all.

This gives a net total of \$360,209,745, to which a half year's interest must be added as it is proposed not to begin the loan service until January, 1924, say \$14,408,000, or roughly a total of \$375,000,000.

Table P then shows the net balance of Customs funds (debit or credit) including the estimated $2\frac{1}{2}\%$ and 5% (luxuries) increases, after providing for existing charges; a \$425,000,000, 20-year 8% loan for foreign unsecured or inadequately secured debts; and a \$375,000,000, 20-year, 8% loan for domestic debts, both including the Ministry of Communications obligations. The domestic debts are estimated scaled down, as shown above, by some \$136 millions in a total of \$496 millions.

Group V

	N	O	P
Years.	Surplus for Adjusting Domestic Debts, Table D having been dropped: i. e. Table I Adjusted	Service of 20-yr 8% Loan \$375,000,000 for Consolidating Domestic Debts, Including Consolidated Debt Service Loans 1924-43	Surplus or Deficit after Funding the \$375,000,000 Loan
	\$	\$	\$
1923	18,005,300	nil	S 18,005,300
1924	18,876,300	30,000,000	D 11,123,700
1925	25,088,300	30,000,000	D 4,911,700
1926	31,219,300	30,000,000	S 1,219,300
1927	33,390,300	30,000,000	S 3,390,300
1928	38,524,300	30,000,000	S 8,524,300
1929	40,538,300	30,000,000	S 10,538,300
1930	42,553,300	30,000,000	S 12,553,300
1931	44,567,300	30,000,000	S 14,567,300
1932	24,324,000	49,760,568	D 25,436,568
1933	35,869,000	49,760,568	D 13,891,568
1934	37,874,000	49,760,568	D 11,886,568
1935	39,860,000	49,760,568	D 9,900,568
1936	41,893,000	49,760,568	D 7,867,568
1937	43,891,000	49,760,568	D 5,869,568
1938	45,897,000	49,760,568	D 3,863,568
1939	47,904,000	49,760,568	D 1,856,568
1940	49,911,000	49,760,568	S 150,432
1941	60,118,000	49,760,568	S 10,357,432
1942	62,125,000	49,760,568	S 12,364,432
1943	64,133,000	49,760,568	S 14,372,432
1944	130,700,000	nil	S 130,700,000
1945	132,700,000	.....	S 132,700,000
1946	153,000,000	.....	S 153,000,000

Group 6 (Tables P. Q. R.)

Assuming that, under proper management with sufficient foreign supervision, the Railways would be able to care for their outstanding debts and loan services, the \$45 millions due to foreign nationals (see page 8) and the \$70 millions due to Chinese by the Ministry of Communications may be deducted from the general consolidating loans (Tables H and O). This would be saving the equivalent represented by the service of a 20-year, 8% loan, of \$125,000,000 (\$45,000,000 plus \$70,000,000, including interest to January, 1924).

Table Q shows the service of such a loan as being the amount saved for general consolidation, exclusive of Communications debts, the latter to be cared for by a separate Railway loan. (The Hukuang Loan and amounts payable on overdue Hukuang and Tientsin-Pukow German issue coupons and amortization are retained in the general consolidation loan, as these items should be promptly paid in order to strengthen the foreign markets for Chinese securities.) Table R thus shows Table P corrected by the amount of the service of a loan of \$125,000,000 (Table Q) and represents the final surplus or deficit of Customs Revenues after serving foreign and domestic consolidation loans.

Group VI

Years.	P		Q		R	
	Surplus or Deficit after Funding the \$375,000,000 Loan		Amounts Necessary to serve \$125,000,000 of the Consolidation Loans 1924-43 (8%, 20 year)		Customs Revenue Surplus after Adjust- ing H & O by Deducting \$125,000,000 of Communications Debts	
	\$		\$		\$	
1923	S	18,005,300	nil		S	18,005,300
1924	D	11,123,700	10,000,000		D	1,123,700
1925	D	4,911,700	10,000,000		S	5,088,300
1926	S	1,219,300	10,000,000		S	11,219,300
1927	S	3,390,300	10,000,000		S	13,390,300
1928	S	8,524,300	10,000,000		S	18,524,300
1929	S	10,538,300	10,000,000		S	20,538,300
1930	S	12,553,300	10,000,000		S	22,553,300
1931	S	14,567,300	10,000,000		S	24,567,300
1932	D	25,436,568	16,586,000		D	8,850,568
1933	D	13,891,568	16,586,000		S	2,694,432
1934	D	11,886,568	16,586,000		S	4,699,432
1935	D	9,900,568	16,586,000		S	6,686,432
1936	D	7,867,568	16,586,000		S	8,719,432
1937	D	5,869,568	16,586,000		S	10,717,432
1938	D	3,863,568	16,586,000		S	12,723,432
1939	D	1,856,568	16,586,000		S	14,730,432
1940	S	150,432	16,586,000		S	16,736,432
1941	S	10,357,432	16,586,000		S	26,943,432
1942	S	12,364,432	16,586,000		S	28,950,432
1943	S	14,372,432	16,586,000		S	30,958,432
1944	S	130,700,000	nil		S	130,700,000
1945	S	132,700,000	.....		S	132,700,000
1946	S	153,000,000	.....		S	153,000,000

To sum up the Tables briefly, assuming that the Special Customs Conference will pass the increase in the Customs and agree to the use of such increase for the consolidation of China's debts, the tables bring out the following facts:

The present charges on the Customs can be easily cared for, and the Consolidated Debt Service Loans and a \$425 million, 20-year, 8%, foreign debts consolidation loan served, barring the years 1923 and 1924, when deficits, respectively, of \$6,255,000 and \$4,576,000 appear. If the proposed foreign debts consolidation loan is given preference over the Consolidated Debts Service loans the \$425 millions loan can easily be cared for.

Turning to domestic debts, there are shown three alternative plans: (1) A loan of \$330 millions, all debts taken at par and the Consolidated Debt service loans treated separately as a prior charge on the Customs. This plan shows heavy deficits decreasing from \$30 millions to \$13 millions in the years 1924 to 1928. (2) Still leaving the Consolidated Debt Service in the preferred position, it is estimated that the remaining domestic debts could be scaled down by \$90 millions (including the omission of all treasury notes from the Consolidation scheme), and a loan of \$240 millions issued instead of \$330 millions. Under this plan the heavy deficits would be from 1924 to 1926—\$23,776,000 to \$16,576,000. The third plan presents itself. This places the Consolidated Debt Service Loan with the other domestic liabilities, and treating all alike, estimates that, of a total face value of domestic liabilities of \$496 millions, a scaling down of \$136,000,000 could be accomplished, and shows a loan of \$375 millions (20-year, 8%, 1924-1943) to cover all domestic liabilities including the Consolidated Debt Service Loans and Ministry of Communications liabilities so far as known. The last plan shows a deficit of \$11 millions in 1924 and about \$5 millions in 1925, which, however, are offset by a surplus of \$18,000,000 in 1923. This is accomplished by delaying the Amortization of the so-called Consolidated Debt Service Loans and by, approximately, a 27%-scaling-down of the total domestic debt. While both these points may be well worth the serious consideration of the Chinese Government, they are points requiring delicate treatment by foreigners. Tables Q and R assume efficient management of Railways, with foreign Supervision, so that a separate loan, guaranteed by the Railways themselves, may be floated to take care of the Communications debts, and therefore may be considered in the same light as Tables H and O with the Ministry of Communications obligations eliminated.

The American Chamber of Commerce in Peking, by virtue of its position at the seat of the Chinese Government, has been in a position to witness at close range the chaos resulting from the extremely unsatisfactory financial condition of

the Government. This Chamber has studied in detail the various proposed plans for the amelioration of this condition which have been published, and on one occasion has, in a resolution, expressed its dissatisfaction with a scheme which had received much public consideration. But being conscious of the fact that destructive criticism alone is not efficacious in securing results, this Chamber appointed a committee from among its members and authorized it to make a study of the financial problems confronting the Chinese Government and to make a report of a constructive nature.

The above study has consequently been made with the intention of providing the American Chambers of Commerce in China and the United States Chamber of Commerce, Washington, D. C., with a picture of the financial situation of the Chinese Government. The suggested methods of handling the situation have been carefully thought out and are intended to assist, in some slight way, the American members of the proposed special Conference, provided for in the Nine Power Treaty Relating to Chinese Customs Tariffs, concluded at the Washington Conference. It is therefore hoped that the work of the Committee will be of some value to those for whom it has been undertaken.



The American Chamber of Commerce in Peking by virtue of its position at the heart of the Chinese Government, has been in a position to witness at close range the chaos resulting from the extremely unsatisfactory financial condition of